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SUBJECT: Scen setter: Special Envoy Morningstar Visit to Paris
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¶1. (SBU) Embassy Paris warmly welcomes your visit on December 14-16. France is a strategic partner on global energy issues, both in its own right, and as a policy leader within the EU. France has a long-standing and statist policy of pursuing energy independence. It currently meets 50 percent of its energy needs domestically (versus 23 percent in 1973), thanks mainly to the fact that it produces 78 percent of its electricity from nuclear power. France also places priority on diversification of oil and gas supplies. France is sometimes at odds with other EU members over the role of nuclear power in Europe's energy mix, and over how to engage constructively with key natural gas supplier Russia. France's energy consumption is made up of 40 percent electricity, 32 percent oil, 15 percent gas, 5 percent renewables, and 4 percent coal. Nuclear power generates 78 percent of France's electricity while 10 percent of its total energy production comes from renewables, and 2 percent through a combination of oil, gas, and coal (with the remainder made up by imports).
Nuclear: Crown Jewels

¶2. (SBU) France is the second-largest nuclear energy producer in absolute terms after the U.S. and is the country with the largest percentage of electricity generated by nuclear power. The French nuclear industry is active in the entire energy chain from uranium mining to waste reprocessing. Nuclear power gives France one of the lowest levels of greenhouse gas emissions among OECD countries, but at a price.

¶3. (SBU) France's 58 nuclear reactors need life-extension investment -- a time-consuming and costly process. In November, 18 reactors were shut down due to maintenance, fuel reloading, and unplanned equipment failures. France is pioneering a new generation of nuclear reactors with the EPR (European Pressurized Reactor) with one project underway in Finland, one in France, and two more on the drawing board (in France and China.). But France has encountered snags in building the EPRs. The original Finnish contract is behind schedule and 25 percent over budget. The cost of power generated at an EPR is expected to be higher than current generation reactors, in part because of greater safety standards.

¶4. (SBU) Due to concerns over waste treatment and social acceptance, French-generated nuclear power is intended primarily for France and exports are intentionally limited. Although still an electricity exporter, France's exports are falling due to lack of investment in existing nuclear plants. France also needs to modernize its electrical grid and expand European interconnections. President Sarkozy launched this month a blue ribbon panel to set strategic priorities for the future of France's civil nuclear sector.

Oil and Gas

¶5. (SBU) France relies on foreign imports to meet virtually all of its oil demand -- the largest sources being Norway, Russia, Kazakhstan, Saudi Arabia, and Libya. With one of the world's "supermajor" oil companies (Total SA), France is sensitive to the growing policy challenges of accessing reserves. The GOF has substantial holdings in other French energy companies -- Electricite de France, GDF-Suez and Areva -- and plays an active role in

high-profile decisions. France provides these companies with critical political support, and promoting French energy majors abroad is an integral part of French foreign policy.

¶6. (SBU) France has diversified its natural gas supplies (Algeria, Norway, Russia) and supports expanding liquefied natural gas (LNG) capacity and shipments. France has two LNG terminals, operated by GDF-Suez, and a third under construction that belongs to Total and a subsidiary of GDF. An additional four LNG terminal projects are under development. Total also has leaseholds in southeastern France which have shale gas potential. Since 2007, France's shale gas sector has opened up for competition for what are assumed to be limited reserves. Now in the preliminary surveying stage, the shale gas sector will enter the exploration phase as early as next year with exploitation a few years down the road.
Russia

¶7. (SBU) The GOF has participated in the EU's "Energy Dialogue" with Russia since 2000 and leads the working group on crisis management strategies. The GOF emphasizes the importance for the EU of "solidarity mechanisms" to respond to possible gas supply disruptions, or other issues that may affect member states unevenly. France realizes that Europe cannot do without Russia to meet its energy demand. Russian PM Vladimir Putin was in France recently for the Fourteenth Franco-Russian Intergovernmental Seminar. Russian and French government and industry leaders signed approximately 20 agreements and contracts in a broad range of fields including energy, environment, infrastructure and the environment. EDF recently acquired a 10 percent stake in the South Stream pipeline and GDF-Suez wants to buy German interests in Gazprom's Nord Stream project, but the deal is still under review. France is ramping up for next year when it launches the "Year of Russia" with increased economic, cultural, and scientific exchanges. The GOF's long-term objective is to establish a broad-based economic zone with Russia based on the free movement of people, goods and services.
Turkey

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¶8. (SBU) The GOF supports discussions on the EU energy chapter with Turkey, although President Sarkozy opposes Turkey's bid to join the EU as a full member. He supports a "privileged partnership" in lieu of EU membership and suggested establishing an "economic zone of common security" between the EU and Turkey (as well as with Russia). French bilateral relations with Turkey have been tense, but are improving. France recognizes the importance of good economic relations, given Turkey's key transit role for energy supplies. The GOF encourages projects with Turkey in the field of energy, one being the "Solar Plan" that was launched by the current French-Egyptian presidency of the Union for the Mediterranean. The Plan aims to export electricity from renewable energies into the EU that will contribute to implementing the European Energy and Climate package. In November, a partnership agreement was signed between French and Turkish national grid operators (RTE and TEIAS) to promote development of the Turkish electricity market.
France, Central Asia and the Caucasus

¶9. (SBU) France pursues a "triangular" relationship with Russia and Caspian Basin countries as it looks to find new oil and gas sources and route and integrate the region into a broader political and security regional framework. The first EU-Central Asia Forum on security issues was held under the French EU Presidency in September 2008. More recently, France has devoted political attention to Kazakhstan. President Sarkozy visited the country in October 2009 and announced it was the GOF's "major strategic partner" in Central Asia. French energy majors Areva and Total have worked in Kazakhstan for years. Total now leads the North Caspian Operating Company, which is developing the giant Kashagan oil field in Western Kazakhstan. France is expanding its presence in other countries of the region as well. It recently opened an embassy in Bishkek, the Kyrgyz Republic, to focus on strengthening economic exchanges and bilateral cooperation. Azerbaijan's president visited President Sarkozy this month in Paris.
US-French Relations: General Background

¶10. (SBU) You will arrive two and a half years into President Nicolas Sarkozy's five-year term, a period marked by strong

coordination between the U.S. and France on key strategic issues. The financial crisis and subsequent G20 response, as well as the lead-up to the Copenhagen climate change summit, have tested this relationship and shown that we can find ways to work together despite fundamental differences on some issues. Since the advent of President Sarkozy in 2007 and the election of President Obama in 2008, the U.S.-French bilateral relationship has become arguably the best it has ever been, with a robust political relationship buoyed by renewed support for the U.S. in public opinion. Sarkozy, is a fierce advocate for French interests, is committed to pushing France forward as a global leader and believes he can best advance French interests by working in tandem with the United States rather than in opposition to us. Politically robust government-to-government relations do not mean, however, that France always aligns itself with the United States. Sarkozy at times equates the health of the relationship with the strength of U.S.-French political and strategic cooperation in other parts of the world, rather than with the economic relationship.

¶11. (SBU) Franco-American economic ties are robust. Bilateral trade, investment and affiliate sales amount to an estimated USD 1.3 billion per day. France is the United State's eighth largest trade partner, and the United States is France's sixth largest trade partner. The U.S. is the top destination for French foreign investment, with direct investment stock of USD 163 billion. There are approximately 2,300 French subsidiaries in the U.S. that provide more than 520,000 jobs and generate about USD 235 billion in turnover. The U.S. is in turn the largest foreign investor in France, with USD 75 billion in investment in 2008, and turnover of about USD 228 billion. U.S. firms employ 650,000 people in France. This Embassy is committed to further enhancing these economic ties.

¶12. (SBU) France's economy has outperformed most other EU member states during the financial crisis, due largely to France's extensive social safety net (e.g. long-lasting unemployment benefits and training programs) which acts as an automatic stabilizer. But government stimulus has also played an important role. The Sarkozy administration pushed through a 26 billion euro stimulus package, which -- with automatic stabilizers -- equals 2.5 percent of gross domestic product (GDP). The government also announced a 35 billion euro "grand emprunt" (a "recovery bond" offering) to stimulate research and investment in innovative industries. The French economy grew at an annual rate of 1.2 percent in 2009, driven largely by a decline in the trade deficit, and by government consumption. Unemployment increased to 9.1 percent on average in Q209, compared to 7.4 percent in 2008, with a 23.9 percent youth unemployment rate. To date, secondary effects of lower employment rates have not significantly weakened what until now has been remarkably resilient consumer demand. The dark side of all this, however, is the soaring budget deficit, which doubled in the first seven months of 2009 to 109 billion euros (USD 155 billion). Because of this, Sarkozy continues to press for reforms that reduce the burden of the state (reducing the civil service by attrition,

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consolidating sub-national administrative layers) as well as encourage small and medium-sized businesses (reduced paperwork, tax exemptions, financing) and provide investment incentives.

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